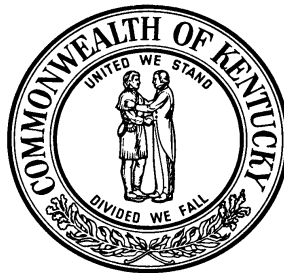


**REPORT OF THE AUDIT OF THE
CLARK COUNTY
SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period
April 28, 2007 Through April 25, 2008**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
CLARK COUNTY
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period
April 28, 2007 Through April 25, 2008

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2007 Taxes for the Clark County Sheriff for the period April 28, 2007 through April 25, 2008. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$16,646,396 for the districts for 2007 taxes, retaining commissions of \$508,056 to operate the Sheriff's office. The Sheriff distributed taxes of \$16,039,342 to the districts for 2007 taxes. Taxes of \$122,353 are due to the districts from the Sheriff and refunds of \$49,065 are due to the Sheriff from the taxing districts.

Report Comments:

2007-1 Sheriff Combined Tax Collection Receipts With Fee Receipts
2007-2 The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits as of December 31, 2007 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$363,491

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathon Miller, Secretary

Finance and Administration Cabinet

Honorable Henry Branham, Clark County Judge/Executive

Honorable Berl Perdue, Jr., Clark County Sheriff

Members of the Clark County Fiscal Court

Independent Auditor's Report

We have audited the Clark County Sheriff's Settlement - 2007 Taxes for the period April 28, 2007 through April 25, 2008. This tax settlement is the responsibility of the Clark County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Clark County Sheriff's taxes charged, credited, and paid for the period April 28, 2007 through April 25, 2008, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 18, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathon Miller, Secretary
Finance and Administration Cabinet
Honorable Henry Branham, Clark County Judge/Executive
Honorable Berl Perdue, Jr., Clark County Sheriff
Members of the Clark County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2007-1 Sheriff Combined Tax Collection Receipts With Fee Receipts
- 2007-2 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

December 18, 2008

CLARK COUNTY
BERL PERDUE, JR., SHERIFF
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period April 28, 2007 Through April 25, 2008

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,538,149	\$ 2,114,954	\$ 7,709,970	\$ 2,384,131
Tangible Personal Property	169,735	339,293	687,361	890,163
Increases Through Exonerations	1,790	2,480	8,807	2,596
Franchise Taxes	175,968	248,348	755,685	
Additional Billings	685	942	3,434	1,062
Bank Franchises	126,599			
Penalties	8,505	11,731	42,318	15,161
Adjusted to Sheriff's Receipt	(1,947)	(2,632)	(9,521)	(3,182)
Gross Chargeable to Sheriff	<u>2,019,484</u>	<u>2,715,116</u>	<u>9,198,054</u>	<u>3,289,931</u>
<u>Credits</u>				
Exonerations	5,264	7,346	25,453	7,144
Discounts	28,838	38,447	129,544	52,408
Delinquents:				
Real Estate	27,867	38,317	139,682	43,193
Tangible Personal Property	793	1,179	3,213	3,480
Franchise	2,380	3,207	11,715	
Bank Franchise	<u>6,719</u>			
Total Credits	<u>71,861</u>	<u>88,496</u>	<u>309,607</u>	<u>106,225</u>
Taxes Collected	1,947,623	2,626,620	8,888,447	3,183,706
Less: Commissions *	<u>83,061</u>	<u>111,631</u>	<u>177,769</u>	<u>135,595</u>
Taxes Due	1,864,562	2,514,989	8,710,678	3,048,111
Taxes Paid	1,882,716	2,535,428	8,574,754	3,046,444
Refunds (Current and Prior Year)	<u>2,789</u>	<u>3,491</u>	<u>13,571</u>	<u>5,859</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Audit	<u>\$ (20,943)</u>	<u>\$ (23,930)</u>	<u>\$ 122,353</u>	<u>\$ (4,192)</u>

The accompanying notes are an integral part of this financial statement.

CLARK COUNTY
BERL PERDUE, JR., SHERIFF
SHERIFF'S SETTLEMENT - 2007 TAXES
For The Period April 28, 2007 Through April 25, 2008
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	7,747,949
2% on	\$	8,888,447

** Special Taxing Districts:

Library District	\$	(9,219)
Health District		(10,740)
Extension District		<u>(3,971)</u>
Refunds Due Sheriff	\$	<u><u>(23,930)</u></u>

CLARK COUNTY
NOTES TO FINANCIAL STATEMENT

April 25, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Clark County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

CLARK COUNTY
NOTES TO FINANCIAL STATEMENT
April 25, 2008
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Clark County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 25, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 31, 2007, the Sheriff's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$363,491

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2007. Property taxes were billed to finance governmental services for the year ended June 30, 2008. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 1, 2007 through April 25, 2008.

Note 4. Interest Income

The Clark County Sheriff earned \$38,355 as interest income on 2007 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of December 18, 2008, the Sheriff owed \$1,183 in interest to the school district and is due back \$962 in interest from his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Clark County Sheriff collected \$58,330 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Clark County Sheriff collected \$630 of advertising costs and \$1,385 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). As of December 18, 2008, the Sheriff owed \$630 in advertising costs to the county and \$1,385 in advertising fees to his fee account.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Henry Branham, Clark County Judge/Executive
Honorable Berl Perdue, Jr., Clark County Sheriff
Members of the Clark County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Clark County Sheriff's Settlement - 2007 Taxes for the period April 28, 2007 through April 25, 2008, and have issued our report thereon dated December 18, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clark County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Clark County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Clark County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations (2007-1 and 2007-2) to be significant deficiencies in internal control over financial reporting.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Clark County Sheriff's Settlement - 2007 Taxes for the period April 28, 2007 through April 25, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Clark County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Clark County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

December 18, 2008

COMMENTS AND RECOMMENDATIONS

CLARK COUNTY
BERL PERDUE, JR., SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 28, 2007 Through April 25, 2008

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:

2007-1 The Sheriff Combined Tax Collection Receipts With Fee Receipts

To ensure proper internal controls over fee and tax collections, all monies collected by the Sheriff should be deposited into the appropriate bank account (i.e. fee receipts should be deposited directly into the fee bank account and tax receipts should be deposited directly into the tax bank account).

During calendar year 2007, the Sheriff began accepting credit card payments. All money, regardless of type (i.e. cash, check or credit) was deposited directly into the fee account. Transfers for tax collections were then made out of the fee account into the tax account. Transfers were not being made timely, resulting in an additional \$71,482 of tax collections remaining in the fee account.

Combining collections of fees and taxes reflects poor internal controls over these cash receipts and could result in the misappropriation of assets and/or inaccurate financial reporting. To ensure proper internal control over fee and tax collections, we recommend that all monies be deposited into the appropriate bank account. We further recommend that the \$71,482 of tax collections be transferred over to the tax account.

Sheriff's Response: Software has been corrected. Credit card payments are accepted for taxes only. All monies received will be deposited in appropriate accounts.

2007-2 The Sheriff's Office Lacks Adequate Segregation Of Duties

A lack of segregation of duties exists over accounting functions in the Sheriff's office. One employee is responsible for preparing the daily bank deposits, posting cash receipts to the ledger, and also comparing the tax collections to the receipts ledger. This employee also has the responsibility of collecting cash when the office is short staffed. This employee is also responsible for preparing and co-signing checks as well as preparing the monthly reports, posting to the disbursements ledger, and preparing financial reports.

A segregation of duties over accounting functions, such as the ones mentioned above, or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from the misappropriation of assets and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

A limited budget can place restrictions on the number of employees the Sheriff can hire. When faced with limited staff, strong compensating controls should be in place to offset the resulting lack of segregation of duties. Several compensating controls were put in place during the 2007 tax year, however, the controls were determined to be ineffective over receipts resulting in inaccurate financial records.

CLARK COUNTY
BERL PERDUE, JR., SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 28, 2007 Through April 25, 2008

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:

2007-2 The Sheriff's Office Lacks Adequate Segregation Of Duties (Continued)

To adequately protect against the misappropriation of assets and/or inaccurate financial reporting, the Sheriff should separate the duties involved in the accounting functions previously mentioned. If, due to a limited staff size, that is not feasible, strong oversight over those areas should occur and involve an employee not currently performing any of those functions. Additionally, the Sheriff could provide this oversight. If the Sheriff does implement compensating controls, these should be documented on the appropriate source document.

Sheriff's Response: Duties will be continually separated and more compensating controls will be implemented.

